

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4278-01
BILL NO.: HB 1974
SUBJECT: Health Care; Revenue Department; Taxation and Revenue-General-Sales and Use
TYPE: Original
DATE: March 20, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$2,298,604)	(\$3,218,046)	(\$3,378,948)
School District Trust	(\$766,201)	(\$1,072,682)	(\$1,126,316)
Conservation	(\$95,775)	(\$134,085)	(\$140,790)
Parks and Soil	(\$76,620)	(\$107,268)	(\$112,632)
Total Estimated Net Effect on <u>All</u> State Funds	(\$3,237,201)	(\$4,532,081)	(\$4,758,685)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	(\$1,149,302)	(\$1,609,023)	(\$1,689,474)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal provides for a sales tax exemption for all diabetic equipment and supplies. The DOR assumes that they can absorb any administrative impact that this proposal may cause. The DOR defers to the Department of Health for an estimate of fiscal impact.

In a similar proposal officials from the **Department of Health (DOH)** state the proposed legislation would exempt certain diabetes supplies and equipment from state and local sales tax. The DOH estimated the proposal would cause an annual reduction of Total State Revenues between \$8,537,636 and \$10,672,045. The DOH states the latest Missouri population (1998) figures as reported by the Missouri Department of Health Center for Health Information Management & Epidemiology is estimated at 5,438,559. The American Diabetes Association estimates that 5.9% of the total population has diabetes, but of this number, only 65.5% are diagnosed. In it's calculation, the DOH estimated the number of persons diagnosed with diabetes to be 210,494 ($5,438,559 \times .059 \times .656 = 210,494$ persons).

The DOH states that the use of supplies will be dependent on the number of times per day a physician has instructed an individual to test their glucose, but \$80-\$100 is an average expenditure for lancets and glucose strips (the major supply costs). Insulin pumps and other insulin delivery devices are currently exempt from sales tax as they are available only with a physician's prescription. A figure of \$80-100 per month x 12 months x 210,494 diagnosed persons x .04225 sales tax equals the DOH's estimated annual fiscal impact range of (\$8,537,636) to (\$10,672,045).

Officials from the **Office of Administration** state they have no estimate of fiscal impact on the state revenues as a result of this proposal, and defer to the estimates of the Department of Health.

Oversight assumes diabetics will either be insulin dependent or non-insulin dependent. As stated in a prior year's fiscal note, ongoing costs for insulin dependent diabetics based on an average usage of three (3) test strips and lancets per day would result in a monthly cost of \$84

ASSUMPTION (continued)

per recipient. Ongoing costs for diabetics without insulin dependence based on an average usage of one test strip and lancet per day would result in a monthly cost of \$28 per recipient. The weighted average of both types of diabetic recipients results in a monthly cost of \$48. The ongoing costs are estimated to grow in terms of cost by 1.2 percent per year based on past experience. Therefore, Oversight has estimated that all diabetics in Missouri will spend an average of roughly \$50 per month on supplies. This would result in an average annual loss of revenue to the state of \$5,336,000 (210,494 diabetics X \$50 per month X 12 months X 4.225%).

However, these totals must be discounted by those recipients that are receiving their diabetic supplies through Missouri Medicaid since they will already be tax exempt. In response to proposed legislation from a prior year, the Department of Social Services estimated the costs of test strips, lancets and other diabetic supplies to the Medicaid program to be \$25,728,718 in FY 1998 and \$27,619,982 in FY 1999. Growing that estimate by 5% for future years, Oversight assumes that the costs of diabetic supplies for Missouri Medicaid recipients in Fiscal Years 2001, 2002 and 2003 would be roughly \$30,451,030, \$31,973,582 and \$33,572,261 respectively. Therefore, Oversight has reduced the estimated taxable sales in those years by the tax exempt supplies covered by Medicaid.

Oversight assumes a 5% growth rate and 9 months of impact for FY 2001.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Loss</u> - Sales tax exemption for diabetic supplies	(\$2,298,604)	(\$3,218,046)	____(\$3,378,948)
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SCHOOL DISTRICT TRUST FUND

<u>Loss</u> - Sales tax exemption for diabetic supplies	(\$766,201)	(\$1,072,682)	____(\$1,126,316)
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<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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CONSERVATION FUND

<u>Loss</u> - Sales tax exemption for diabetic supplies	(\$95,775)	(\$134,085)	____(\$140,790)
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PARKS AND SOIL FUND

<u>Loss</u> - Sales tax exemption for diabetic supplies	(\$76,620)	(\$107,268)	____(\$112,632)
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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CITIES

<u>Loss</u> - Sales tax exemption for diabetic supplies	(\$689,581)	(\$965,414)	____(\$1,013,684)
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COUNTIES

<u>Loss</u> - Sales tax exemption for diabetic supplies	(\$459,721)	(\$643,609)	____(\$675,790)
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(\$1,149,302)	(\$1,609,023)	(\$1,689,474)
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FISCAL IMPACT - Small Business

A direct fiscal impact to certain small businesses that sell diabetic supplies may be expected because of possible changes in record-keeping and sales tax remittance due to this proposal.

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DESCRIPTION

This proposal exempts from state and local sales and use taxes all sales of diabetic supplies and equipment, including but not limited to insulin syringes; insulin pumps and other insulin delivery devices and supplies; blood glucose monitors, strips, tablets, and supplies; urine test strips; and lancers, lancets, and insulin carry kits.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Health
Office of Administration
 Budget and Planning
Department of Social Services



Jeanne Jarrett, CPA
Director
March 20, 2000